

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07
L-03 NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15
USIA-15 AID-05 COME-00 EB-08 FRB-01 TRSE-00
XMB-04 OPIC-06 LAB-04 SIL-01 OMB-01 STR-04 CEA-01
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E.O. 11652: N/A
TAGS: EFIN, IS
SUBJECT: BANK OF ISRAEL URGES RESTRAINT

1. CONCERNED ABOUT THE COLLAPSE OF THE GOVERNMENT'S WAGE POLICY AND THE IMPACT OF CURRENT WAGE INCREASES ON INFLATION, GOVERNOR GAFNI, BANK OF ISRAEL, HAS APPEALED TO POLITICAL PARTIES TO REACH A CONSENSUS IN FAVOR OF SHARP REDUCTIONS IN THIS YEAR'S BUDGET. HE TOLD THE KNESSET'S FINANCE COMMITTEE ON APRIL 11 THAT THE 1977 BUDGET SHOULD BE CUT BY IL4-5 BILLION. (ECONOMIC WRITERS HAVE RECENTLY PREDICTED THAT THE WAGE HIKES AND DELAYS IN CUTTING GOVERNMENT SUBSIDIES COULD PUSH THE BUDGET DEFICIT TO IL 10 BILLION, AS COMPARED TO IL 5 BILLION DEFICIT IN DRAFT BUDGET.)

2. GAFNI EXPRESSED PARTICULAR CONCERN OVER THE RECENT RISE IN MONEY SUPPLY, NOTING THAT THE MEANS OF PAYMENT HAD INCREASED BY MORE THAN 20 PERCENT DURING THE FIRST QUARTER OF THIS YEAR, WITH MONETARY INJECTION BY THE GOVERNMENT TOTALING IL 1.5 BILLION IN MARCH ALONE. HE SAID THAT HE MUCH PREFERRED BUDGETARY RESTRAINT TO HIGHER TAXES, SINCE THE LATTER CONTRIBUTE DIRECTLY
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TO THE INFLATIONARY SPIRAL. HE CALLED FOR A FREEZE IN PUBLIC SECTOR HIRING, NOTING THAT 15,000 PERSONS HAD BEEN ADDED TO THE GOVERNMENT PAYROLL LAST YEAR. SUCH A FREEZE WOULD PERMIT THE SHIFT OF WORKERS AND RESOURCES TO PRODUCTION AND EXPORTS. THE CONTINUED USE OF FOREIGN CURRENCY LOANS TO FINANCE EXPENDITURES IN ISRAELI POUNDS SHOULD ALSO BE CURTAILED, HE SAID.

3. IN A SHARP REBUTTAL, ECONOMIC ADVISOR DOVRAT, MINISTRY OF FINANCE, TOLD THE PRESS THAT THE BANK OF ISRAEL IS EXAGGERATING THE CURRENT ECONOMIC DIFFICULTIES. HE MAINTAINED THAT REAL MONEY SUPPLY, SEASONALLY ADJUSTED, HAS INCREASED VERY LITTLE IN RECENT MONTHS, IF AT ALL. HE DID NOT BELIEVE THAT THERE WAS SIGNIFICANT EXCESS LIQUIDITY AT THE MOMENT. ON THE CONTRARY, HE THOUGHT THAT THE GOVERNMENT SHOULD BE PREPARED TO TAKE EXPANSIVE STEPS LATER IN THE YEAR IF THERE IS DELAY IN THE EXPECTED ECONOMIC UPTURN.

4. COMMENT: WITH THE ELECTIONS ONLY A MONTH AWAY, STATEMENTS BY GOVERNMENT SPOKESMEN, SUCH AS DOVRAT, HAVE STRONG POLITICAL CONTENT. GAFNI, TO HIS CREDIT, IS SPEAKING OUT, AT THE RISK OF OFFENDING HIS FORMER MINISTRY OF FINANCE COLLEAGUES, AGAINST THE CURRENT DRIFT OF EVENTS. HE OBVIOUSLY DOES NOT EXPECT ANY EARLY DECISIONS BUT IS HOPING AT LEAST TO PREPARE THE GROUNDWORK FOR REMEDIAL ACTION WHEN THE NEW GOVERNMENT IS FORMED LATER THIS SUMMER.
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